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SUBJECT: SERBIA AND MONTENEGRO: INVESTMENT CLIMATE  
STATEMENT 2006

¶1. The following is Post's submission for the 2006  
Investment Climate Statement:

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A.1. Openness to Foreign Investment  
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Serbia and Montenegro is quickly establishing a liberal investment regime. Although the continuing transition has not yet eliminated all structural barriers, both republic governments, in Serbia and in Montenegro, recognize the need to remove impediments, reform the business environment and open the economy to foreign participation. For example, in June 2004 the Serbian government launched an Action Plan (together with the World Bank) identifying barriers and working with the business community to eliminate these barriers. Montenegro is implementing a comprehensive Economic Reform Agenda, led by the Prime Minister and supported by the USG and other international donors. The attitude towards foreign investors is generally favorable. Serbia and Montenegro has a long history of international commerce, even under communism, and it once attracted a sizeable foreign company presence.

Already, the country has attracted considerable interest. Although cumulative levels of foreign direct investment (FDI) are still low compared to elsewhere in the region, Serbia and Montenegro could easily overtake other countries in Southeast Europe. In 2003 alone, foreign direct investment in Serbia and Montenegro amounted to around \$1.3 billion, outperforming other countries in Southeast Europe. FDI for 2004 was somewhat lower at an estimated \$947 million, primarily due to a slowdown in privatization in Serbia and political uncertainty following a change in government in Serbia in March 2004. But 2005 witnessed a rebound in investor interest, with FDI in Serbia estimated to have reached USD 1.5 billion, much of that banking sector. Serbian firms invested USD 59 million abroad in ¶2005.

Leading investor nations in Serbia and Montenegro include: the United States, Greece, Germany, Austria, Slovenia, Netherlands and Cyprus. The banking sector has attracted investment from Intesa (Italy), Credit Agricole (France), HVB Bank (Germany/Austria), Erste Bank (Austria), Nova Ljubljanska Banka (Slovenia), EFG Eurobank (Greece), Findomestic Bank (Italy), Pireus Bank (Greece), OTP Bank (Hungary), and others. In the trade sector, France's Intermarche opened its first retail outlet in Nis and plans to develop operations throughout Serbia. German Metro Cash and Carry has invested some EUR 60 million in Serbia. Privatization of the two refineries owned by one of the largest state-owned companies, the Oil Industry of Serbia (NIS), and the government is placing other well-regarded industrial companies up for sale. Privatization also is reaching the tourism industry, with the sale or attempted sale of several Belgrade hotels in 2005. This trend should accelerate as the Agency for Privatization begins to sell off some 100 non-core assets, that were spun off by major state-owned companies during 2005, including many hotels. For instance, the Agency just published the prospectus for sale of a 135-suite hotel at Serbia's premier ski resort that was owned by JAT Airways.

So far, Montenegro has achieved greater relative success in attracting FDI. In the five-year period from 2000-2004, inflows reached EUR 904 million, or USD 1,600 per capita, compared to USD 400 per capita for Serbia during the same period. To increase the inflow, the Government of Montenegro established the Montenegrin Investment Promotion Agency (MIPA) in 2005. According to MIPA, investment in 2005 reached EUR 315 million, or three times more than the year before.

Since 2003, the United States has emerged as the single largest investor nation in Serbia and Montenegro, accounting for approximately USD 1 billion. The largest US investors are:

-Philip Morris International (a subsidiary of the U.S. diversified Atria Corporation), which purchased the Nis Tobacco Factory through privatization for EUR 518.5 million

in 2003, becoming the largest foreign investor in Serbia;

-U.S. Steel Serbia, which acquired Serbias only steel producer, Sartin, through bankruptcy in 2003, with investment to date exceeding USD 150 million;

-Galaxy Tire, which purchased specialty tire producer Ruma Guma through privatization in February 2003 with a total investment of about USD 10 million;

-Ball Corporation, which constructed a major greenfield production facility to manufacture beverage containers, with investment expected to reach USD 75 million in Phase I of the project;

-Coca-Cola Co., which joined forces with Greek Coca-Cola Hellenic Bottling Co. (CCHBC) to acquire 100 percent of water bottler Vlasinka from Serbian furniture maker Simpo in February, 2005, for EUR 21.5 million. The estimated value of the entire transaction, which also includes investment for development projects, is expected to reach EUR 100 million.

Other projects of interest include a planned USD 60 million air cargo and logistics terminal that Dyncorp International will build at Belgrade Airport, based on a USTDA feasibility study. Microsoft opened a Development Center in Belgrade during 2005, its fifth of this type in the world, to continue expanding language support for handwriting recognizers within Microsoft Tablet PC technology and develop recognizers for the languages of Central and Eastern Europe (CEE).

Serbia and Montenegro has enacted specific legislation outlining guarantees and safeguards for foreign investors. The former Yugoslav Law on Foreign Investments (January 2002), amended and formally incorporated into Serbian law (2003), establishes the framework for investment in the republic. The law eliminates previous investment restrictions; extends national treatment to foreign investors; allows for the transfer/repatriation of profits and dividends; provides guarantees against expropriation; and allows customs duty waivers for equipment imported as capital-in-kind. In late 2002, the Government of Serbia promulgated new tax incentives for foreign investors. Montenegros Foreign Investment Law (November 2000) provides the same rights and protections for foreign investors.

Neither Republic employs screening mechanisms, and foreign participation is welcomed in ongoing privatization campaigns. However, a foreign investor or entity may not, alone or with another foreign investor, establish an enterprise in the production of and trade in armaments, or in areas defined as restricted zones by law. A foreign investor may establish an enterprise in the above-mentioned field and areas, or invest his capital in it together with a domestic entity, but without acquiring the majority rights in the management of such an enterprise and only with the consent of the Ministry of Defense of Serbia and Montenegro.

The Republics' economic teams view foreign capital as vital to the restructuring of the real sector and, as a result, have fully expressed their commitment to remove barriers and facilitate investor interest. Thus, reform efforts have not been limited to the promulgation of the two foreign investment laws. Rather, the governments understand the need to reform a wide body of laws to improve the overall business regulatory environment and thereby enable private sector companies to grow and to compete.

To promote investment, the two republics offer various resources. The Serbian Investment and Export Promotion Agency (SIEPA) was established to provide direct assistance to investors in Serbia. SIEPA works closely with individual donors on various activities. In addition, the Agency for Privatization provides information and works with potential investors to educate them about the privatization program and its potential opportunities. Contact information for SIEPA is as follows:

Serbian Investment & Export Promotion Agency (SIEPA)  
Vlajkovicева 3/V  
11000 Belgrade Serbia  
Tel: (381)(11) 3398-510; 3398-550  
Fax: (381)(11) 3398-814  
[www.siepa.sr.gov.yu]

The Agency of Montenegro for Economic Restructuring and Foreign Investments was established in 1990. However, this agency's primary task was privatization and restructuring. To place a greater emphasis on investment promotion and fostering economic development, the Government of Montenegro established the Montenegrin Investment Promotion Agency (MIPA) in 2005. It seeks to bring Montenegro to the attention of the international community as a competitive investment destination by actively facilitating investments

in the country.

Inquiries on investment opportunities in Montenegro can be directed to:

Petar Ivanovic, Director  
Montenegrin Investment Promotion Agency (MIPA)  
Atinska 36  
81000 Podgorica, Montenegro  
Tel/fax: +381 81 655 583, 655 584, 655 586, 655 479  
Website: [www.mipa.cg.yu](http://www.mipa.cg.yu)  
E-mail: [info@mipa.cg.yu](mailto:info@mipa.cg.yu)

Montenegrin Agency for Economic Restructuring  
Jovana Tomasevica bb  
81000 Podgorica Montenegro  
Tel: (381)(81) 242-640 or 246-411  
Fax: (381)(81) 245-756

Both agencies are relatively small and lack resources to shepherd investors through the process from start to finish. Potential investors should discuss specific projects/interests with relevant line ministries to obtain the necessary support from the government.

#### ----- A.2. Conversion and Transfer Policies -----

The republics foreign investment laws guarantee the right to transfer and repatriate profits in Serbia and Montenegro, respectively.

Serbia's Law on Foreign Exchange (enacted originally as a federal law in May 2002) establishes a foreign exchange market and provides for current account convertibility. In May 2002, the National Bank of Yugoslavia (now the National Bank of Serbia) notified the IMF that it accepts the obligations of Article VIII (2), (3) and (4) of the IMF Articles of Agreement. IMF members undertaking these obligations commit to refrain from restrictions on payments and transfers for current international transactions, and from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. The Foreign Exchange Law also permits local and foreign companies to hold a foreign exchange account in one or more banks authorized for international operations. These accounts can be used to make or receive payments in foreign currency.

The National Bank of Serbia and the Ministry of Finance have proposed a new Law on Foreign Exchange that would ease restrictions on foreign transactions; it should be presented to Parliament early in 2006. Some of the major changes proposed: 1) Provisions on foreign credit transactions will be included, thereby nullifying the existence of the separate 1992 Law on Foreign Capital Transactions, which is currently in force; 2) new forms of foreign trade financing will be introduced to assist companies in obtaining working capital; 3) the period by which exporters must repatriate export earnings and importers must proceed with importation after payment will be extended from 90 to 180 days; and 4) provisions for secured transactions are outlined more thoroughly to promote a modern financial market and to attract foreign investors.

Montenegro uses the Euro as its domestic currency. There are no difficulties in the free transfer of funds exercised on the basis of profit, repayment of resources or residual assets.

#### ----- A.3. Expropriation and Compensation -----

Serbia and Montenegro provides legal safeguards against expropriation. Protections are codified in laws adopted by the republic governments. There have been no cases of expropriation of foreign investments in either republic.

However, both republics have outstanding claims related to property nationalized under the Socialist Federal Republic of Yugoslavia. On May 30, 2005, Serbia adopted the Law on Reporting and Registration of Nationalized Property that sets out two phases for restitution. The first allows citizens whose property was nationalized after March 9, 1945 to register their claims by June 30, 2006. Churches and religious organizations are not obligated to register their property claims because a separate law being drafted will address their claims. After the registration deadline, the Government of Serbia will then determine which compensation model to use to best address these claims, given budgetary constraints. The total value of nationalized property is estimated at between USD 60-150 billion, according to Finance Minister Dinkic.

In 2004, Montenegro's Law on Replacement and Settlement of Restitution Rights was ratified. In the last year, municipalities formed restitution committees, and the government established the Restitution Fund from which compensation is already being made to claimants.

The Law on Foreign Investment provides safeguards against arbitrary government expropriation of foreign investments. Serbia's Law on Expropriation (2001) defines justifications for possible expropriations and procedures that must be followed under law. The law enumerates various economic and security circumstances affecting Serbia's common interests in which expropriation is permitted: education, public health, social welfare, culture, water management, sports, transport, power and public utility infrastructure, national defense, local/national governments' needs or territorial autonomy agencies, and the exploration/exploitation of mining and other resources. Special procedures are outlined for expropriations related to major natural disasters. The Government of Serbia issues a determination on common interests; the law designates Serbia's Supreme Court as the appellate mechanism.

Following this determination, a proposal for expropriation may be filed with the competent local authorities. The authorities are obliged to hold proceedings and issue a decision. The Ministry of Finance is designated to resolve complaints filed against first-instance decisions.

In the event of an expropriation, Serbian law requires that compensation be provided in the form of similar property or cash approximating the current market value of the expropriated property. The law stipulates various criteria for arriving at the amount of compensation with respect to different types of land (agricultural, vineyards, forests) or easements that affect the value of the land. If a compensation agreement is not reached within two months of the expropriation order, the local municipal court will intervene and decide the compensation.

Republic of Montenegro  
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Montenegro provides safeguards from expropriation actions through its Foreign Investment Law. Article 29 states that the government cannot expropriate property of a foreign investor unless there is a compelling public purpose established by law or on the basis of the law. If an expropriation is executed, compensation must be provided at fair market value plus one basis point above the LIBOR rate for the period between the expropriation and the date of payment of compensation.

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A.4. Dispute Settlement  
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Arbitration  
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The Foreign Trade Court of Arbitration (founded in 1947) is located within the Serbian Chamber of Economy. Arbitration is voluntary and conforms to the U.N. Commission on International Trade Law (UNCITRAL) model law. The court focuses on foreign trade or international commercial disputes (including investment) involving domestic and foreign parties. The court's arbitration rules promote a speedy and efficient process (no more than one year). Arbitration commences when the parties have mutually requested arbitration and accepted the court's jurisdiction. Its decision is final and binding.

Once an issue has been decided, the arbitration award must be executed upon notice from the court to the losing party, which is given a deadline to comply. If no payment is made within the time allotted, then the party benefiting from the decision notifies the local commercial court. The commercial court then orders payment. The same procedure applies for decisions of foreign arbitration courts (as per the 1958 New York Convention). Complaints against the court of arbitration are not recognized unless a procedural flaw is alleged.

Serbia and Montenegro is a signatory to the following international conventions regulating the mutual acceptance and enforcement of foreign arbitration: the 1923 Geneva Protocol on Arbitration Clauses, the 1927 Geneva Convention on the Execution of Foreign Arbitration Decisions, the 1958 New York Convention on the Acceptance and Execution of Foreign Arbitration Decisions; the 1961 European Convention on International Business Arbitration; and, the 1965

Washington Convention on the International Center for the Settlement of Investment Disputes (ICSID).

Arbitration has not been employed to a large extent during the last 10 years given the absence of foreign companies from the market. Additionally, although the Courts arbitral decisions may be enforceable in Serbia, they may not be recognized in Montenegro. Consequently, many foreign companies include a clause in contracts that requires third-country arbitration if disputes arise. Foreign arbitral decisions would be enforceable in both the Serbian and Montenegrin court systems.

A new Law on Arbitration is currently in the drafting process. A new working group has been formed and a second draft version is complete. The second version covers International and Domestic Arbitration. The draft is clearer and follows the UNCITRAL Model Law more closely.

In November, 2004, the International Court of Arbitration in Paris issued a ruling in favor of U.S. company Valeant Pharmaceuticals (formerly ICN Pharmaceuticals), ordering that the U.S. company be permitted to repatriate USD 50 million in the dissolution of a joint venture. At this time, it appears that the Government of Serbia and Valeant are near a settlement.

#### Legal System

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The union and republic constitutions serve as the foundation of the legal system and create independent judiciaries in Serbia and Montenegro. Unlike the United States and the United Kingdom, which use common law, Serbia and Montenegro has adopted European civil law. However, higher court decisions can be used as guidance by lower courts.

Serbia and Montenegros judiciary historically lacked independence and was subjected routinely to political manipulation during the socialist and Milosevic periods. Judges were appointed based on party affiliation. During the Milosevic regime especially, the court system was severely undermined, with judges often rubber-stamping regime actions. Judges who challenged the regime were simply removed. Officials are now focusing on a range of issues to overhaul the court system: accountability, salary levels, training, selection/appointment process, execution/enforcement of judgments, budget, court organization and responsibilities, and ethics. The U.S. Government, through USAID, is providing assistance on reform of the court system, primarily commercial courts but also general jurisdiction courts and magistrates.

#### Union Judicial System

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There is only one court of the State Union, the Court of Serbia and Montenegro, and its jurisdiction is set forth in the Constitutional Charter: disputes between institutions of Serbia and Montenegro on questions on their jurisdiction pursuant to the Constitutional Charter, disputes between the state union and its member states regarding the question of their jurisdiction over citizens' complaints for violations of rights guaranteed by the Constitutional Charter, issues of consistency of member states Constitutions with the Constitutional Charter, and similar issues.

The Constitutional Court is a separate court of the Republic of Serbia, with its jurisdiction set forth in the Constitution of the Republic of Serbia. It mainly decides the constitutionality of certain laws. Montenegro's Constitutional Court has a similar function.

#### Republic of Montenegro Judicial System

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Montenegros Law on Courts defines a judicial system of three levels: basic courts, superior courts and the Supreme Court. It also establishes two courts with special jurisdiction for commercial matters. Two new courts were established in 2005: appellate and administrative Courts. While the administrative courts are operational, start-up of the appellate courts is awaiting appointment of judges.

The basic courts exercise original jurisdiction over civil and criminal cases. There are 15 courts for 21 municipalities. Two superior courts in Podgorica and Bijelo Polje have appellate review of municipal court decisions. Superior courts also decide on jurisdictional conflicts between the municipal courts.

The two commercial courts (which also handle economic

crimes) have been established in Podgorica and Bijelo Polje. Their jurisdiction: shipping, navigation, aircraft (except passenger transport), intellectual property rights, bankruptcy, and unfair trade practices. The superior courts hear appeals of commercial court decisions, and superior court decisions may be appealed to the Supreme Court. The Supreme Court is the court of final judgment for all civil, criminal and administrative cases.

The commercial court system faces challenges. Some reform proposals have suggested the creation of a High Commercial Court or dedicating a chamber of the Supreme Court to commercial cases. Some judges have also suggested designating a particular court with assigned competency for specific areas in order to streamline caseloads and develop specialized expertise for complicated economic crimes/matters.

#### Republic of Serbia Judicial System

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Serbia's court system consists of: municipal courts (138), district courts (30), commercial courts (17), the High Commercial Court (1), the Supreme Court (1) and the Constitutional Court (1). Municipal courts are the court of first instance for civil and criminal matters. District courts hear appeals from the municipal level but also serve as courts of first instance for serious civil and criminal cases.

The Supreme Court is the highest court in the republic, with jurisdiction over all civil and criminal cases, uniform implementation of law, equal protection, questions pertaining to judiciary practice, and jurisdictional issues between lower courts. The court hears appeals from the District Courts and the High Commercial Court. The Supreme Court also has a division that reviews decisions of administrative bodies. The Constitutional Court, which is distinct from the Supreme Court, issues binding interpretations of the constitution and rules on challenges regarding the constitutionality of laws and regulations.

The new Law on the Organization of Courts establishes (valid from January 1, 2007) new Courts of Appeals to review District Court decisions; decisions of those courts may be appealed to the Supreme Court. The Courts of Appeals will be located in Belgrade and three other cities. The new law also establishes an additional court, the Administrative Court, with original jurisdiction in cases arising from decisions of administrative bodies. The Supreme Court will hear appeals from the Administrative Court's decisions. In addition, Courts for Misdemeanors and a High court for Misdemeanors of the Republic of Serbia will be established as of January, 2007.

Most commercial cases are heard by 17 regional commercial courts of first instance. The commercial court system has four divisions: litigation; commercial law offenses; bankruptcy/liquidation, and execution of decisions. Approximately 240 judges sit in the commercial courts, 65 of them in Belgrade. The High Commercial Court reviews decisions of the first instance commercial courts, and its rulings may be appealed to the Supreme Court.

#### Execution of Judgments

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Serbia has a new Law on Execution, approved in November, 2004, which establishes procedures for the execution of claims. Generally, to execute judgments, a final judgment is required so that the court can order payment, seizure of goods/property or direct that action be taken or cease. If a lower court's decision is confirmed on appeal, the case is returned to the first-instance court for the final judgment. The judgment holder must then proceed to the competent court and submit a petition for execution. The court order is actually carried out by officers of the court, who may seek police assistance in executing the writ (e.g., seizing property). A separate expedited enforcement procedure has been enacted that allows claimants to submit certain types of authenticated documents to the court and initiate the execution phase without a first instance court procedure to obtain a judgment.

Foreign judgments are recognized in Serbian and Montenegrin courts, based on an application for recognition/enforcement to the relevant SAM court. Enforcement of foreign judgments in both Serbia and Montenegro is governed by a single law, now applicable in the Union, which dates from the former Yugoslavia (Official Gazette no. 32/82 72/81 and 46/96,

Articles 86-101). Under this law, the court does not review the decision but decides on whether the requirements for recognition are fulfilled, based on the following issues: whether defendants were duly apprised of the complaint and allowed to present their case in the original proceeding;

whether the same matter is neither pending nor has not been decided in local courts between the same parties; whether the foreign judgment pertains to matters that are the exclusive jurisdiction of SAM courts (e.g., real estate); whether execution of the foreign judgment contravenes SAM law; whether SAM decisions are recognized by the foreign country's court; whether the decision is final and conclusive, and whether the decision is clear.

#### Law on Business Companies

On November 15, 2004 the Serbian Parliament adopted a new Law on Business Companies. The law provides greater clarity both in organizing and operating a company and in settling disputes in both small and large firms. The law is more consistent with international business practices and adds modern provisions for corporate governance and protection of investors.

Limited liability Company (LLC) provisions of the law were made more flexible, and a new provision for closely-held (closed) joint stock companies was added. The minimum capital requirement for establishment of a Serbian LLC is only 500 Euro or its equivalent, which is much less than that required for large companies.

The new law provides for two types of joint stock companies: closed and open. This is a change from the existing law, and it follows other European company laws. A closed joint stock company is much like an LLC, but it can be easily converted to an open joint stock company if it wishes to go public.

The new Serbian closed joint stock company will have required minimum capital of 500 Euro equivalent (like an LLC), and it will be free to impose restrictions on transfer of its shares for example, a requirement of board approval, or a right of first refusal in favor of other shareholders, whenever a shareholder wishes to sell to a third party. It may not, however, offer its shares publicly and it may not have more than 100 shareholders. In most other respects a closed company will resemble an open company, and a closed company may become an open company at any time so long as it adopts and agrees to follow the rules and requirements for an open company.

An open company, by contrast, is subject to detailed capital maintenance requirements, may sell its shares to the public, and may not impose any restriction on the resale of its shares.

Under the new law, a joint stock company is permitted to issue only one class of common stock, which may have only one vote per share. Preferred stock must be non-voting, with certain exceptions, and preferred stock always has preference over common stock with respect to dividends and distributions on liquidation of the company.

A number of other changes encourage good corporate governance and protect investors, mirroring current international best practices:

- A legal duty of care and duty of loyalty to the company, including provisions on personal conflict of interest, have been added. Changes also hold directors (and in some cases other control persons) more accountable to shareholders.

- Directors can be elected only by shareholders.
- Cumulative voting is specifically permitted and is required in large joint stock companies.

- The structure of the board is simplified, making a supervisory board optional. The distinction between and roles of directors (who are elected by the shareholders) and the management team (who are appointed by the directors) is spelled out more clearly.

- Directors will have only one-year terms and will always be up for election or re-election at each annual shareholder meeting.

- Also, shareholders can remove a director at any time without proof of cause.

Small and closely-held companies (whether partnerships, LLCs or joint stock companies) may be able to mix shareholding, directing and management. However, large joint stock companies are required by the new law to have a number of independent directors, and the new law contains a definition of the term independent director that follows current precedents in Europe and the United States.

The changes also expand the rules for lawsuits against directors and other persons in control of a company of any type (partnership, LLC or joint stock company) including

controlling shareholders in some cases - based upon international models. Under the new law, a separate supervisory board is no longer required in a joint stock company. Instead, a company may have a supervisory board, internal auditor or audit committee that acts as an independent body with specific legal power to provide financial and legal oversight and supervision, including oversight of the company's outside audit firm and of the company's legal compliance.

The changes add new detail to the procedural rules for convening and conducting shareholder meetings. More detailed restrictions are placed on proxies (voting representatives) to prevent the abuse of managers voting shares of employee-shareholders. Under the new law, a proxy must be in writing and can be revoked by the shareholder at any time including at the shareholder assembly. The new law also expands the prohibition against managers voting employees shares.

Regarding court action, the new law specifies the courts powers, and the types of orders it can issue, in more detail than is found in other laws.

Finally, the new law contains a number of provisions to comply with requirements of the European Union Company Law Directives.

#### ----- A.5 Performance Requirements and Incentives -----

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Neither the union nor republic governments impose any performance requirements as a condition for establishing, maintaining or expanding an investment.

Limited incentives are offered to foreign investors. In Serbia, tax holidays are available (based on size of investment and jobs generated) along with customs relief on in-kind imported equipment. In Montenegro, the government offers both duty exemptions for imported equipment.

#### Law on Concessions -----

The Law on Concessions was adopted by the Serbian Parliament in May 2003. It eases the process of obtaining and utilizing concession licenses. It also regulates the conditions and procedures for obtaining a concession to exploit natural resources, use property in the public domain and or conduct activities of general interest.

The law defines a concession as the right to use natural resources, assets of general use or to perform activities of common interest, which a competent state body (Grantor) concedes to a domestic or foreign person (Grantee) for a limited period of time, under the terms prescribed by the law and upon the payment of a concession fee.

The object of a concession may be: 1) researching and exploiting raw materials (minerals); 2) constructing, renovating, maintaining and utilizing of: various water supply facilities; roads; public railway infrastructure; air traffic facilities; river traffic facilities and ports; telecommunication facilities; oil pipelines, gas pipelines and other gas and oil facilities; public utilities; power-generating and heating facilities; river and lake banks; medical institutions; sports and recreation facilities, sports fields and areas; tourist facilities and infrastructure; 3) using thermal springs; 4) other activities specified by the law as activities of common interest.

A foreign physical or legal person cannot be granted a concession for specific activities in Serbia where, in accordance with the law regulating foreign investments, a foreign entity may not establish a company. A concession is granted by a public tender. By exception, if a public tender could endanger national security, the government may proceed without a public tender. A concession may be granted for up to 30 years. The concession fee is determined depending on the type, quality, purpose and the market price of the natural resource or assets in question, i.e., depending on the type of activity, market terms, duration of the concession, estimated risk and expected profit.

#### ----- A.6. Right to Private Ownership and Establishment -----

The union and republic constitutions guarantee the right to ownership and establishment, although private ownership of



urban land is not yet permitted. A foreign physical or legal person incorporated pursuant to the laws of either republic is considered to be a legal person. Foreign investors may acquire property rights for buildings and rights for other immovable assets to be used for their business activities. They may acquire residential property, such as apartments, but not ownership rights over the land itself (unless the land is in rural areas). Foreign investors are permitted to hold land-use rights for up to 99 years, and such rights can transfer with the sale of buildings on such sites. By law, urban lands are held by the municipal governments. Rural lands are regulated differently and investors may acquire the land rights. Serbia is now drafting a new constitution, but political developments could further delay the process. It is expected that the new constitution will permit ownership of urban lands.

In Montenegro, a foreign investor, foreign legal person or foreign individual may acquire property. Article 12 of the Montenegrin Foreign Investment Law specifically permits foreign investors to purchase real estate through a contract. This right is explicitly reinforced by the Law on Property and Law Relation. The Act states that foreign natural and legal persons carrying out activities in Montenegro can, based on reciprocity, acquire real estate in order to perform the activities related to the investment. This same law also permits the acquisition of property (houses and apartments) by foreign persons even if they do not have any investment or business activity in Montenegro.

#### ----- A.7. Protection of Property Rights -----

##### Mortgages/Secured Transactions -----

The mortgaging property and chattels was formerly regulated by Chapter XXVIII of the Yugoslav Law on Contract and Torts. The two republics have now passed separate laws on secured transactions to establish a clear, transparent framework.

In July 2002, Montenegro enacted its Law on Secured Transactions and established a collateral registry at the Commercial Court in May 2003. The registry's operational guidelines have been drafted and approved by the commercial court.

In June 2003, Serbia passed a secured transactions law, the Law on Registered Charges on Movable Assets. A Business Services Agency was established in January 2005, which will maintain a collateral registry in addition to registering new businesses.

In December 2005, Serbia adopted a new Law on Mortgages that will allow banks to mortgage buildings under construction. The previous law did not permit the entering of unfinished buildings into the land registries, making securing of loans during construction very difficult. In the event a debtor is unable to repay the loan, the new law permits sale of the mortgaged property within six months instead of the former three- to five-year period. This new law should provide incentives for housing construction, by ensuring better legal protections for creditors and debtors. The law also broadens the availability of mortgages through more flexible conditions for such loans, which are now permitted not only for completed construction but also for projects under construction, including subdivisions of a property, unregistered objects and land. The GOS hopes that this law will lower interest rates, by better protecting creditors. An owner who grants a mortgage to a lender will not be able to change the physical structure of the property without the creditors consent, but is allowed to rent it or sell it. If the pledged real estate is subject to bankruptcy, the law states that the creditor has priority in any distribution. The law also will permit establishment of a Central Mortgage Register.

These laws substantially improve the inadequate scope of previous Yugoslav law. Unlike that law, these new laws address non-possessory pledges on moveable property. The law also prioritizes claims based on possession. With respect to land, central registries are typically not completely current. Both republic governments are making an effort to modernize their cadastral systems. The World Bank is providing assistance in this area.

##### Intellectual Property Rights

The acquisition and disposition of intellectual property rights are protected by laws at the Union level. It is the responsibility of the two member states (republics) to implement and enforce these laws. The legal regime for IPR protection has improved substantially in recent years as

SAM has revised laws to meet WTO TRIPs standards. In practice, however, enforcement is weak and actual protection, insufficient. Sale of pirated optical media (DVDs, CDs, software) as well as counterfeit trademarked goods, particularly sneakers and clothing, is fairly widespread. Enforcement is slowly improving as customs, police and judicial authorities obtain the necessary tools, but institutional capacity is still limited. Strengthening IPR protection will continue to be a challenge.

Intellectual property rights are covered by a series of six union laws that are enforced by the republic governments. The Law on Copyright and Related Rights, the Law on Patents, the Law on Trademarks, the Law on Legal Protection of Designs, and the Law on Protection of Integrated Circuit Topographies were passed in June and December 2004, and are fully WTO-TRIPs compliant. A new Law on Geographical Indications that is WTO-TRIPs compliant will replace the 1995 law and should be adopted in early 2006.

#### Enforcement -----

Complaints of IPR infringement must be brought before the relevant republic commercial or district courts (depending on the legal status of parties involved). Procedures for enforcement of intellectual property rights are governed in both Serbia and Montenegro by their respective Laws on Civil Procedures (recently enacted), based on the substantive Union-level laws for each area of intellectual property.

Laws on Civil Procedures meet the procedural requirements of TRIPs Article 42 (written notification regarding a dispute and protections for evidence and the rights of the parties involved). With respect to providing evidence that is under the control of the opposing party (referenced in TRIPs Article 43), the laws allow the Court to compel production of documents or things within a given time limit. The laws regulating specific areas of intellectual property rights (Law on Copyright and Related Rights, Patent Law, Trade Mark Law, Law on Legal Protection of Designs, Law on Geographical Indications and Law on Protection of Topographies of Integrated Circuits), provide specific legal remedies to rights holders.

Criminal sanctions, including in some cases imprisonment, may be imposed in cases where IPR infringement is found. In April, 2003, Serbia amended its Penal Code to improve enforcement efforts, instituting stiffer penalties, including prison sentences, for piracy. In June 2003, a subsequent amendment to the Criminal Code was adopted enabling the police to seize or destroy pirated goods and production equipment and materials. However, in practice, courts have typically imposed only weak penalties.

The new Penal Code for Serbia, adopted by the Parliament in September, 2005, has a specific chapter on criminal offences committed by infringement of IP Laws; it provides adequate penalties for the infringement. It also provides for ex officio prosecution without the filing of a private complaint of a rights holder. A new draft Law on the Enforcement of Intellectual Property Rights (adoption by the Serbian Parliament is expected by March 2006) will make legal entities, such as corporations, culpable for IPR violations and provide for fines up to three million dinars (approximately EUR 35,000). It also will provide ex officio authority for inspectors in areas such as trade, medicines and medical supplies, and electronic media and broadcasting, among others.

Montenegro made progress in 2005 in strengthening its legislative framework. In July 2005, the Montenegrin Parliament passed a law similar to Serbia's law on the enforcement of intellectual property rights that entered into force January 1, 2006. The law provides for fines for legal entities of up to EUR 30,000 for selling pirated and/or counterfeit goods. It also provides ex officio authority for market inspectors in the areas mentioned above. In April 2005, the Montenegrin Parliament adopted the Regulation on (TRIPs) Border Measures that provides powers to the customs authorities to suspend customs procedure and seize pirated and counterfeit goods.

In early 2006, Montenegro's Parliament is expected to amend the Penal Code to include criminal offences with respect to infringement of all IP rights, ex officio prosecution and stricter criminal penalties. A new Law on Optical Disks also should be approved in both Serbia and Montenegro, which will regulate the production of optical disks, require the registration of the business activity of reproducing optical disks for commercial purposes, provide for surveillance of optical disk imports and exports and imports and exports of polycarbonates (the material used in production of optical disks) and production equipment for the production of optical disks.

## International Agreements

The following conventions and agreements in the field of intellectual property are binding on SAM and thus on the Republics:

- Convention Establishing of the World Intellectual Property Organization (1967) (member since October 1, 1973);
- Paris Convention for the Protection of Industrial Property (1883) (member since February 26, 1921);
- Berne Convention for the Protection of Literary and Artistic Works (1886) (member since June 17, 1930);
- Madrid Agreement Concerning the International Registration of Marks (1891) (member since February 26, 1921);
- Protocol relating to the Madrid Agreement Concerning the International Registration of Marks (member since February 19, 1997);
- Patent Cooperation Treaty (1970) (member since February 1, 1997);
- Hague Agreement Concerning the International Deposit of Industrial Designs (1925) (member since December 30, 1993);
- Universal Copyright Convention (1952) (member since 1966);
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1957) (member since August 30, 1966);
- Locarno Agreement Establishing an International Classification for Industrial Designs (1968) (member since October 16, 1973);
- Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite (1974) (member since August 25, 1979);
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1977) (member since February 25, 1994);
- Trademark Law Treaty (1994) (member since September 15, 1998);
- Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (1958) (member since June 1, 1999);
- Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods (1891) (member since May 18, 2000);
- Nairobi Treaty on the Protection of the Olympic Symbol (1981) (member since March 18, 2000);
- Treaty on Intellectual Property in Respect of Integrated Circuits (1989) (signed, not ratified);
- International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (member since December 20, 2002);
- Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms (member since December 20, 2002);
- WIPO Copyright Treaty (member since December 20, 2002);
- WIPO Performances and Phonograms Treaty (member since December 20, 2002);

## WTO Accession

Serbia and Montenegro, as a successor in rights of the former FRY, has been in the process of accession to the World Trade Organization since 2001. Following the example of the EU's twin track approach, both Serbia and Montenegro withdrew their joint application and submitted separate applications for WTO accession in December, 2004.

At the February 15, 2005 meeting, the General Council accepted separate membership applications from the Republics of Serbia and Montenegro and agreed to establish independent working parties to continue the accession process. The first independent meetings of the countries' working parties were held in October, 2005.

The U.S. Government, through USAID, has been providing technical assistance to Serbia and Montenegro on preparation for the WTO accession process.

## A.8. Transparency of Regulatory System

### Commercial Code & Contract Law

The former Federal Law on Contracts and Torts (1978) embodies contract law in Serbia and Montenegro. No laws have been passed in either Serbia or Montenegro that replace or amend this law because, on the whole, experts view the law as essentially sound. Still, some problems

have been noted. In contract disputes, the law provides judges with the discretion to reduce damages. This law, for instance, also addressed secured transactions; new secured transactions laws have been enacted in both republics that correct weaknesses in the 1978 law. Additionally, in May 2003, the Republic of Serbia adopted a new Law on Financial Leasing, which has provided the framework for significant development of leasing arrangements and contracts. The law establishes a public register in the form of an integrated electronic database that documents leasing contracts.

The permitting processes that control both the acquisition of land (rights of use, in municipalities) in Serbia and subsequent decisions related to use of such land generally are considered a significant barrier to foreign investors.

#### Bankruptcy Law -----

For the most part, bankruptcy legislation has never been enforced in Serbia and Montenegro, and the courts have little or no experience in adjudicating bankruptcy cases. Bankruptcy was always equated with liquidation and consequently avoided. During previous governments, socially-owned companies were not permitted to fail. That situation is changing. The faltering economy has left many insolvent companies. The governments are moving to overhaul legislation and practices so that these companies can be restructured or liquidated. New bankruptcy practices should also spur companies to pay more attention to sound financial practice to avoid insolvency.

The former Federal Bankruptcy Law regulated bankruptcy actions in Serbia. This law was deficient in many respects; most notably it provided excessive protections for debtors. Another feature is the lack of a reorganization clause (e.g., U.S. Chapter 11). The law was rarely applied. In July 2004, the Serbian parliament adopted a new bankruptcy law that incorporates international concepts and practices. USAID and the World Bank assisted in drafting the law. The government will also receive international assistance in training trustees and judges and the establishment of an agency to regulate bankruptcy trustees.

Serbia's new law contains modern provisions similar to those that have been adopted by other countries seeking to modernize their bankruptcy systems. It provides enhanced creditor involvement; improved debtor eligibility criteria to filter inappropriate petitions; an improved claim resolution procedure and penalties for submitting false documents and claims. It also expands the role of private bankruptcy trustee-administrators. The new law provides greater flexibility in developing a plan of reorganization, but also requires adherence to strict deadlines and the affirmative vote of creditors for acceptance. The new law also features international bankruptcy provisions, incorporating the UNCITRAL Model Law on Cross-border Insolvency.

Montenegro's Law on Business Organization Insolvency (February 2002) provides the regulatory framework for the bankruptcy process. Insolvency exists and bankruptcy may be initiated if various conditions are met: an entity has stopped payments for 30 days; the debt exceeds a statutorily defined amount; the debt is not contingent; and, the debtor has an established pattern of non-payment.

The Commercial Court has exclusive jurisdiction over bankruptcy matters. A written petition must be submitted. The court decides on acceptance of the petition, acceptance of the petition, selects an administrator (trustee), reviews creditor complaints, approves the settlement for creditors, and decides on the closing of proceedings. The bankruptcy judge supervises the administrator. The trustee represents the debtor, managing assets subject to the bankruptcy and preparing requisite information for the bankruptcy proceedings.

The creditors committee consists of up to nine unsecured or partially-secured creditors. The committee is convened to protect the interests of all creditors during the proceedings, to oversee the administrators work and to report to the creditors on the proceedings. Creditors must declare all claims by a fixed deadline. The law establishes the priority of creditor claims, assigning higher priority to taxes and other revenues of both the central and local governments.

Chapter VIII of the Law addresses reorganization, an alternative to liquidation whereby attempts are made to maximize asset recovery and provide for fair and equitable distribution among all creditors. Article 66 lists various methods of reorganization. Either the trustee or debtor may file a reorganization plan.

In 2005, two new agencies were created to foster implementation of the new bankruptcy law in Serbia: the Bankruptcy Unit within the Privatization Agency, which acts as the bankruptcy administrator for all majority state or socially-owned companies in bankruptcy proceedings; and the Bankruptcy Licensing Agency, which exercises regulatory power over bankruptcy administrators, including the conduct of professional examinations and the issuance of licenses to practice. Two licensing examinations, containing both written and oral components, were conducted in 2005, and more than 180 administrators are now licensed to practice in Serbia.

#### Alternative Dispute Resolution (ADR) - Mediation Law

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A new Law on Mediation was adopted February 24, 2005 and came into force on May 26, 2005. This Law introduced mediation as a new practice in the Serbian legal system. It presents a mechanism for alternative dispute resolution, and it is expected that its implementation will decrease the backlog of court cases. According to this Law, mediation is voluntary, and may be initiated prior to or during a proceeding before the court or other body.

#### Law on Competition/Anti-Monopoly

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Serbia's Parliament approved a new competition law on September 16, 2005. The law contains a pre-merger notification turnover threshold of alternatively 10 million Euros in Serbia or 50 million Euros worldwide. This low threshold likely will be problematic for foreign investors. Most foreign companies buying even a small company in Serbia will be forced to obtain approval from the Antitrust Commission prior to the purchase, which can take as long as four months. Another problem is the penalty provision, which permits low-level courts to impose severe penalties (up to 10 percent of total worldwide turnover). In addition, the deadline for the nomination of Commission members already passed, without Government action. It also is unclear how this law and the existing takeover rules will interact.

The Montenegrin Parliament also has adopted a competition law, which went into force January 1, 2006. This law is regarded as an improvement to the investment climate in Montenegro.

On May 23, 2005 the Parliament of Serbia established an Energy Regulatory Agency by appointing the first members of the Council. The Agency Council consists of the president and four members nominated by the GoS and appointed by the Parliament. The Council is accountable only to the Parliament for the Agency's work. This Agency will have authority over the electricity, gas, oil and heating energy sectors. Its main tasks are approval of pricing, development of a model for determining allowable business costs for energy sector entities, issuance of operating licenses for energy companies and for construction in the energy sector, and monitoring of public tenders. The energy law prescribes that in those energy sectors where prices are affected by the monopoly positions of some participants, business costs will be set at levels approved by the Agency. In those areas deemed to function competitively, the market will determine prices.

The Regulatory Agency for Telecommunications was formed according to the Serbian Telecommunications Law adopted in April 2003. Serbias Parliament elected the President and the members of the Agency's Management Board in May 2005. The agency's mission is to raise the efficiency of existing providers, introduce new and improve old services to modernize the telecom infrastructure, and create conditions for the sectors further development.

The regulatory function of the Agency is to set rules for participants on the open market. Issuance of licenses is one of the main competencies of the Agency. The license gives the individuals or legal entities the right to operate on the telecommunication market. Other competencies of the Agency are interconnection or mutual connection of networks of the different operators; responsibility for overall network service, its maintenance and financing; and line leasing, which means that the public operator with the dominant market share has the obligation to offer its lines for leasing under certain conditions. In those telecommunications sectors where prices are affected by the monopoly positions of certain participants, prices will be set at levels approved by the Agency. In those areas deemed to function competitively, the market will determine prices.

In addition to its regulatory function, the Agency has controlling and monitoring functions. It is responsible for

implementing relevant laws and has the authority to issue penalties according to the law.

## Taxation -----

### Republic of Serbia

The Ministry of Finance has implemented three phases of reform to modernize Serbia's tax system in an attempt to simplify taxation and increase revenues. The components of the Serbian tax system are: Value Added Tax (VAT), personal income tax, corporate profit tax, excise duties, property taxes, payroll tax and taxes on use of goods and on permission to use goods.

The standard VAT rate on most goods and services is 18 percent, with a limited list of staple foods, medicines and other products assessed a lower 8 percent rate. Humanitarian aid, grants, and orthopedic equipment for persons with disabilities are exempted from VAT, while traditional religious organizations are entitled to VAT refunds.

The applicable personal income tax rate is 14 percent for salaries and 10 percent for net income from self-employment. Other personal income is primarily taxed at a rate of 20 percent, although deductions are allowed for some types of income. The taxable base is equal to gross income without deductions for income taxes and social contributions. Foreign residents are subject to an additional tax at the rate of 10 percent if their income from salary exceeds 10 times the average annual salary in Serbia. (Serbian residents are subject to an additional tax at the rate of 10 percent if their total income exceeds four times the average annual salary in Serbia.)

In 2004, the government lowered the corporate profit tax rate from 14 percent to 10 percent, making it one of the lowest in all of Europe. Tax credits and holidays of up to 10 years are available for investment in fixed assets and employment of new workers, particularly in underdeveloped regions. Serbia introduced a VAT on January 1, 2005.

Excise taxes are levied on luxury goods and other products such as oil derivatives, beverages (alcoholic, soft drinks), cigarettes, coffee, salt and ethanol alcohol. Excise taxes are flat rates based on the volume of the product and are in addition to VAT. In July 2003, the Parliament adopted amendments to excise taxes, which will strive to bring Serbia in line with EU and WTO requirements after a transition period.

For all taxpayers, the property tax rate is set at the rate of 0.4 percent of the taxable base, but the base varies with the type of taxpayer. Businesses pay on all assets, including machinery and other non-real estate property,

whereas individuals pay only on the market value of their real estate holdings. A 5 percent tax rate is applied to the transfer of ownership rights of real estate and other taxable property, except for the transfer of rights over agricultural and forest land and used motor vehicles, for which the rate is set at 2.5 percent. A tax rate of 0.3 percent is imposed on the transfer of securities and shares in legal entities.

Profit tax is not withheld on dividend payments between Serbian entities. For non-residents tax is withheld as follows:

- Income tax is calculated and withheld on salaries at the rate of 14 percent and on certain other income (dividends, royalties, interest, capital gains, lease payments) at the rate of 20 percent.
- The provisions of applicable double tax treaties regarding withholding will apply.

### Republic of Montenegro

Montenegro's Profit Tax is proportionate and amounts to 9 percent. Foreign investors cannot obtain an exemption from the corporate profit tax, since the principle of national treatment was adopted. Turnover taxes are excise taxes and are determined as fixed Euro amounts or percentages in complicated ways for various products (alcohol and alcohol beverages, tobacco products and mineral oils, mineral oil derivatives and their substitutes.). A Value-Added Tax (VAT) on products and services, implemented in April 2003, is assessed at 17 percent. Amendments to the VAT law reduced the tax rate from 17 percent to 7 for accommodation services (hotels and pensions) in tourism, additional taxation of medicines that are not on the authorized list of the Health Fund, communal services, transport services and authorial services, etc. Reducing the tax rate in tourism should improve competitiveness and promote economic

development

Montenegros progressive personal income tax ranges up to 23 percent. The aim of the Government of Montenegro is to institute a single, low proportional rate. The real estate tax rate is proportional, ranging from 0.08 percent to 0.80 percent of the property's market value. Local self-government units can determine real estate tax rates according to types of real estate. A local self-government unit can increase the tax rate for agricultural land not cultivated to 50 percent in relation to the tax rate for cultivated agricultural land. The international community is providing assistance to improve the capabilities of the tax administration.

#### A.9. Efficient Capital Markets and Portfolio Investment

##### Capital Markets

Serbia has been successful in establishing a capital markets infrastructure, but, as yet, neither the equity nor bond markets serve as a source of long-term capital for enterprises. Capital markets are typically vehicles whereby various entities, both public and private, raise long-term capital to finance activities and/or investments. The companies normally supplying funds to the markets are insurance companies, pension funds, banks and private investors. In Serbia and Montenegro, the capital markets suffer from a lack of fixed-income instruments - the only bonds are issued either by the central government or the central bank. The equity market in Belgrade is quite lively, but the main activity is takeovers of existing publicly traded companies. Sources of long-term capital are only now developing, with the recent introduction of voluntary pension funds. The insurance sector is still dominated by state-owned insurers that are being restructured for privatization, and the companies are not yet a source of long-term financing for the capital markets. The United States, European Union, World Bank and other donors are providing assistance in several areas to develop the necessary legal and institutional framework to enhance the role of local capital markets.

##### Republic of Serbia

In 1989, the Yugoslav Capital Market was formed in accordance with the Capital and Money Market Law and was renamed the Belgrade Stock Exchange (BSE) in 1992. BSE operations are defined in the 1994 Act on the Exchange, Exchange Operation and Exchange Intermediaries. The BSE has 48 shareholders (30 banks, seven broker and dealer companies, seven companies, two insurance companies, the State Union Republic of Serbia and Montenegro and the Republic of Serbia) and 74 members (64 brokers and 10 banks). The BSE is governed by its Assembly, the Board of Directors, a Director and the Supervising Board.

Short-term securities traded on the BSE include securities issued by the National Bank of Serbia (central bank), Serbian Ministry of Finance short-term treasury bonds, company and bank bonds, bankers' acceptances, company commercial paper and CDs. In 2005, there were 166,700 total transactions executed through the BSE at a value of CSD 48.6 billion or EUR 570 million, an increase of nearly 2 percent and 20 percent over the previous year, respectively. The average daily trade volume was approximately CSD 190 million or EUR 2.5 million. Most of the 2005 trade volume, 81 percent, was in equities; bonds accounted for 19 percent. The Belgrade stock market index - BELEXfm - increased by 451.54 index points, or 39.5 percent, during the year. During 2005, foreign investors accounted for 42.58 percent on average of the Belgrade stock market's total volume, with 51.18 percent in equity volume and 15.8 percent in fixed-income. The BSE has been utilized by the Serbian government for privatization auctions and the sale of shares from the Privatization Share Fund.

The 1995 Union Securities Act provides the regulatory framework for the capital market and 1995 government decree established the Federal Commission for Securities and Financial Markets. In November 2002, the former Federal Assembly enacted a new Law on Securities, which was implemented in October 2003. The law seeks to improve upon previous legislative shortcomings (disclosure requirements, distinction between private placements and public offerings, minority shareholder rights, ownership disclosure, accounting/auditing standards, minimum entry standards for market intermediaries, etc.). The new law draws upon standards of the International Organization of Securities Commissions (IOSCO), the OECD Principles of Corporate Governance and the EU Directives on Stock

Exchanges. There are still some remaining issues related to the law: open and closed corporate entities; obligatory trade of securities on the BSE; mutually affiliated companies, takeover provisions, and supervision.

All registration of securities and clearing of trades is handled through the Central Securities Depository and Clearing House, a joint-stock company organized in December 2003. The Depository, which is owned by its members and government institutions, is the sole register for all securities issued in Serbia, whether bonds or equities. The Depository also acts as the clearing mechanism for all trades involving its registered securities, with clearing actually carried out through some 100 members, mostly brokers, dealers and banks. Efficient functioning of the Central Securities Depository and Clearing House provides for a safe financial environment for all investors; for instance, one key function of the depository is temporary custody of shares tendered pursuant to takeover bids. During 2005, securities valued at more than EUR 10 billion were entered into the registry, while the value of cleared transactions reached EUR 3 billion. Among the transactions were some 50 takeovers with a total value of EUR 568 million.

Takeovers on the Belgrade Stock Exchange have become a more and more important method of acquisition. Current law foresees two procedures: In the first, an investor may quietly amass a stake of up to 25 percent of a company, but then must formally launch a takeover with notification to the Serbian Securities and Exchange Commission (SEC). Or, the would-be purchaser may simply initiate the notification without any holding in the target company. The SEC then approves publication of the public offer and mailing of a solicitation to all holders of record. This tender remains open 21 days; rival suitors may launch counter-offers within the first 14 days of this period, which then may trigger an extension of the period. No further bids are permitted in the last seven days of the period, after which sell orders are tallied, and a winner declared. However, this timetable conflicts with the timetable set out in the new competition law, which permits the Commission for the Protection of Competition four months to decide on a takeover.

Takeovers have not been without controversy. In 2005, a Slovenian company attempted a takeover of retail chain C-Market, the shares of which had not been fully registered. After the takeover bid was launched, employee shareholders obtained a court injunction blocking the takeover. When the would-be acquirer was unable to overturn the court's injunction, it withdrew its offer. The company was subsequently taken over by interests connected to C-Market management.

Other sectors of the financial markets, specifically, insurance and voluntary pension funds, are consolidated with bank supervision under the National Bank of Serbia in order to facilitate more effective supervision and development of the capital market.

#### Banking law

On November 11, 2005 the Serbian parliament adopted a new banking law, reaffirming the role of the National Bank of Serbia in supervising much of the financial sector. The law requires that a buyer of more than 5 percent of a bank's capital seek approval from the central bank, and sets the required initial capital for a bank at EUR 10 million. The new law stipulates that banks are no longer to be run by a general manager but rather by a two-member executive board; introduces more responsibilities for auditors, and calls for setting up a risk management unit within every bank.

By the end of September 2005, there were 40 commercial banks and one savings bank, whose assets totaled CSD 672 billion (USD 9.46 billion). Raiffeisenbank (14%), Delta Banka/Banca Intesa (11%), and Komercijalna Banka (10%) are the three largest banks by total bank assets in Serbia.

#### Amendments on Law on Financial Leasing

Amendments to the Law on Financial Leasing were adopted on July 15, 2005. They authorize the National Bank of Serbia to supervise leasing companies and establish financial leasing controls. A registry in the Agency for Registration of Business Entities keeps a record of all leasing contracts.

#### Republic of Montenegro

The capital market in Montenegro was established largely for facilitating the mass voucher privatization program. Three components that comprise the formal institutions of the capital market:

1. Central Depository Agency (CDA): Pursuant to the Securities Law, all securities must be issued in



dematerialized form (there are no bearer shares).  
Registration and transfer of these shares is executed through the CDA.

12. Stock Exchanges and Brokers: There are two exchanges: Montenegro Stock Exchange and NEX Montenegro. Ten brokers and one dealer operate on the Montenegrin stock exchanges.  
13. The Securities Commission of the Republic of Montenegro (SCMN): Provides regulatory oversight of the exchanges and industry activities.

Three types of securities are traded: shares of companies, shares of privatization -investment funds and old currency saving bonds.

By the end of September 2005, there were 10 commercial banks, whose assets totaled EUR 595 million (USD 715 million). Crnogorska Komercijalna Banka (38%), NLB Montenegro Banka (13%), and Podgoricka Banka (12%) are the three largest banks per percentage of total bank assets in Montenegro.

Index values give a good picture of the situation on the Montenegrin Stock exchanges. High index growth rates demonstrate that the Montenegrin capital market is developing. The total volume of trade on both Montenegrin stock exchanges in the first eight months of 2005 was over EUR114.6 million, more than twice the total volume in 2004. The number of transactions is growing. In the first eight months of 2005, transactions totaled 66,770.

#### ----- A.10. Political Violence -----

Since October 2000, Serbia and Montenegro has been led by democratically-elected governments that are implementing new policies contributing to stabilization of the region. The union and two republic governments, along with the majority of the public, support integration into the European Union and the reforms necessary to achieve this goal.

The assassination of Serbias Prime Minister in the spring of 2003 by a criminal group threatened to be a setback for not only Serbia but the entire country. The government exercised responsible crisis management and launched a crackdown on organized crime, resulting in the solving of previous political murders perpetrated by the former Milosevic regime; the disbanding of a Milosevic paramilitary group; and, the removing of corrupt judges, prosecutors and other officials.

In March 2004, violence in the U.N.-administered province of Kosovo, largely directed by the majority ethnic Albanian population directed against minority ethnic Serbs heightened tension within Serbia. Mosques were damaged in Belgrade and Nis. However, the Serbian government responded constructively and worked with the international community to calm the situation. The Serbian government also publicly condemned the damage to the mosques and is providing assistance for their repair. Serbia continues to work within the international framework on Kosovos future status.

There is no sustained anti-American sentiment in the general public despite U.S. involvement in the NATO intervention against Yugoslavia (Serbia and Montenegro) in 1999. Bilateral relations have normalized since the ouster of Milosevic, and Serbia and Montenegro and the United States share many policy goals and cooperate productively in many areas. There is broad support for a strengthening of ties with the United States, especially in the economic/commercial sphere. There is, however, a pervasive skepticism among the general population over U.S. foreign policy in Serbia and Montenegro as well as globally. There remain serious tensions and deep suspicion within the Government and public related to the strong USG focus on Serbia and Montenegro's as yet unfulfilled obligation to turn over for trial those indicted by the UN International Criminal Tribunal for the former Yugoslavia (ICTY) for war crimes during the conflicts of the 1990s in Croatia, Bosnia and Kosovo. There have been no incidents involving politically motivated damage to American projects and/or installations in Serbia and Montenegro.

#### ----- A.11.a. Corruption -----

Corruption is a critical problem in Serbia and Montenegro. It ranges from the petty expectation that bribes are to be paid at any and all stages of a business transaction to money laundering and attempts to siphon-off assets by previously politically-connected tycoons and organized crime groups. The imposition of international sanctions

from the early 1990s until 2001 had the unfortunate effect of stimulating illicit trade/smuggling and a burgeoning black market in both republics. The Milosevic regime effectively used this situation by actively facilitating and exploiting this illegal economic activity. By the latter half of the 1990s, the former Yugoslavia developed a reputation for being a lawless state at the center of international criminal rings in drugs, auto theft, cigarette/arms smuggling, human trafficking, etc.

There is now increased acknowledgement of pervasive corruption. Increased independence and assertiveness of the media since the ouster of Milosevic have heightened scrutiny over the transparency of government and business dealings as well as public pressure to combat corrupt practices. In early 2003, the assassination of the Serbian Prime Minister galvanized the new government to launch a crackdown on organized crime and begin a more thorough house-cleaning of the judiciary, security services, military, etc. Nonetheless, after some initial positive steps, many perceive that most of this momentum has been lost under the current government, elected in December 2003. The widely-perceived high level of corruption in the government and its sporadic, and sometimes politically-motivated, efforts to combat this problem raise questions with regard to the near-term prospects for significant progress. Additionally, the deeply rooted practice of favoring certain parties based on "veze," or connections, in lieu of more transparent practices, will require significant time and resources to change.

In the 2005 Corruption Perception Index survey compiled by Transparency International (TI), an international watchdog organization for corruption, Serbia and Montenegro received an index score of 2.8 out of 10 (ten being "highly clean"), reflecting a slight increase from the rating of 2.7 in 2004.

Both republic governments face the challenge of rehabilitating how business is performed and legitimizing much of the informal economy through the creation of a transparent legal and regulatory framework. During the past couple of years, there have been important steps in creating the foundations to fight crime and corruption. Since 2002, Serbia and Montenegro has been an active participant in the Stability Pact Anti-Corruption Initiative, adopting guidelines recommended within the Pact. Additionally, the republic governments joined other regional finance ministers in an initiative to combat cross-border cigarette smuggling.

Serbia and Montenegro is a signatory to the Council of Europe Civil Law Convention on Corruption and has ratified the Council of Europe Criminal Law Convention on Corruption, the United Nations Convention against Transnational Organized Crime and the United Nations Convention against Corruption. It is also a member of GRECO (the Group of States against Corruption), a peer monitoring organization that allows members to assess anti-corruption efforts on a continuing bases.

In Serbia and Montenegro, both giving and receiving bribes are crimes which carry prison sentences up to five and 12 years respectively. Bribes by local companies to foreign officials are also considered criminal acts punishable by law.

#### Republic of Serbia

Corruption in business and other aspects of life is generally regarded as a critical problem in Serbia. In December 2001, the Serbian government announced a National Anti-Corruption Strategy focusing on: institutional development; public administration reform; economic reforms; civic participation; and promotion of a political environment conducive to fighting corruption. The government subsequently formed the Anti-Corruption Council (an advisory committee of prominent experts with little authority) to steer the efforts of the Serbian government. In the past couple of years, the government has passed key legislation to develop an anti-corruption legal framework. Twenty-one anti-corruption teams were made operational in 26 municipalities with hotlines; the teams include a local police officer, a state prosecutor and a state security officer. Following the assassination of Serbias Prime Minister and corruption scandals that rocked the previous government, the governments efforts to combat organized crime and corruption intensified. In March 2004, the new government immediately pushed through a new Law on Conflict of Interest to eliminate questionable activities of government officials in response to rising public sentiments over perceived corruption by government

officials. However, although there have been a smattering of investigations and arrests of public officials, there are serious questions about the government's commitment to make these measures effective by sustained implementation. Moreover, many observers claim that the vast majority of corruption investigations launched by authorities have been motivated by political considerations.

#### Republic of Montenegro

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In 2001, the Government of Montenegro established an Anti-Corruption Agency responsible for preparing anti-corruption legislation, improving the transparency of financial and business operations, coordinating activities with NGOs, and promoting awareness in combating corruption. While solid progress has been achieved over the past year through passage of important legislation on public procurement, the treasury and budget system, and courts, implementation of these laws is now the key.

#### A.11.b. Bilateral Investment Agreements

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Serbia and Montenegro has 41 investment protection treaties/agreements in force with the following countries: Albania, Austria, Belarus, Belgium and Luxemburg, Bosnia and Herzegovina, Bulgaria, Russia, China, Cyprus, Croatia, Cuba, Czech Republic, Egypt, Finland, FYR Macedonia, France, Germany, Ghana, Greece, Guinea, Hungary, Holland, India, Iran, Israel, Italy, Kuwait, Libya, Lithuania, Nigeria, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, UK, Ukraine, Zimbabwe.

Several BITs initiated in 2005 are expected to be signed in 2006, with the following countries: Denmark, Ethiopia, Jordan, Pakistan, Qatar, Tunis and South-African Republic.

The United States does not have a Bilateral Investment Treaty (BIT) with Serbia and Montenegro. It is possible that, given the presence of U.S. investors, Serbia and Montenegro could be a BIT candidate in the near future.

Serbia and Montenegro is in the center of the Southeast Europe Free Trade Area, which was ratified and fully functional as of 2004. It includes the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia and Montenegro, Macedonia, Moldova and Romania. The agreement liberalizes at least 90 percent of mutual trade by the end of 2008. In addition, a free trade agreement with Russia is fully in force, offering access to a market of 150 million people. In 2000, the European Commission introduced Autonomous Trade Measures for Serbia and Montenegro. These measures permit exports to the EU without customs and quantities restrictions for almost all products originating from Serbia and Montenegro. In addition, trade with Kosovo, which is under UN administration, proceeds duty free, although goods are assessed relevant taxes.

Under the Law on Free Zones, it is possible to establish a free zone only if 30 percent of goods produced or services supplied annually in the zone are intended for export. Furthermore, the government has the authority to cancel the operating license for the zone if the value of goods and services exported from the zone is less than 50 percent of the total value of production (goods and services) in the zone in three consecutive years.

These provisions are contrary to Article 3 of the WTO Agreement on Subsidies and Countervailing Measures, which expressly prohibits subsidies contingent on export performance. According to available information, the new Law on Free Zones, which likely will be enacted later in 2006, will not contain such provisions. Both Serbia and Montenegro are negotiating WTO accession.

Following the Belgrade Agreement of 2002, Montenegro and Serbia agreed on an action plan to bring the two economic systems together as they move jointly toward EU accession. In practice, however, the harmonization of tariffs and trade policy proved difficult. As a result, the EU proposed a two-track approach to EU accession in October 2004. The twin-track approach allows the EU to deal with Serbia and Montenegro separately on issues relating to trade, customs and economic and sectoral policies, while seeking to reach an agreement with the union on international political obligations and human rights. All customs rates, previously determined by federal legislation, are now set separately either by Serbian or Montenegrin authorities. The trade reform has significantly simplified both republics' trade regime by substantially reducing and simplifying licenses, quotas, tariff rates and structure. Both republics' customs tariffs are in compliance with EU tariff nomenclature. There are no tariffs for most of the products that are imported from countries in the region. There are also no tariff rates for products originating in Serbia and imported into

Montenegro, and there are no export duties in either republics.

#### A.11.c. OPIC and Other Investment Insurance Programs

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Serbia and Montenegro signed a Bilateral Agreement with the U.S. Overseas Private Investment Corporation (OPIC) in July 2001 and became eligible for OPIC programs in November 2001 with ratification of the Agreement by the SAM Assembly. OPIC's activities include: (1) insurance for investors against political risk, expropriation of assets, damages due to political violence and currency convertibility; (2) insurance coverage for certain contracting, exporting, licensing and leasing transactions.

OPIC also supports a USD 90 million regional equity investment fund for Southeastern Europe managed by Bedminster Capital Management, and it provided USD 30 million in term financing to ProCredit Holding to expand microfinance lending in Serbia and 18 other countries. To date, the Southeast Europe Equity Fund II has invested in Serbia, among other countries. For more information see: <http://www.opic.gov>.

Serbia and Montenegro became a member of the Multilateral Investment Guarantee Agency (MIGA) -- a World Bank affiliate in April 2002. MIGA also provides political risk insurance for investors.

In the event that OPIC should pay an inconvertibility claim under its political risk coverage, the local currency accepted by OPIC in any subsequent recovery would be made available to the Embassy on a priority basis for U.S. Government expenses. The estimated annual value of local currency used by the Embassy is approximately USD 7 million.

#### A.11.d. Labor

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Serbia's total labor force is comprised of approximately 2.93 million people, of which around 890,000 are unemployed (Note: this translates to an official unemployment rate reaching nearly 28 percent. However, a separate measure of unemployment compiled by the Statistical Office, which follows ILO methodology, estimates the actual rate of unemployment rate closer to 19 percent.) The major employment generating sectors are: manufacturing (480,000), trade (200,000), health and social work (164,000), education (130,000), transport/communications (119,000), construction (88,000), and agriculture, forestry and water industry (70,000). There are an estimated 1.2 million people employed by state-owned or socially-owned enterprises. (Socially owned means much of the voting interest is held by workers.) While illiteracy is low (7 percent), Ministry of Education statistics indicate that 48.4 percent of the population has completed primary school; 32 percent have completed secondary school; and only 5.5 percent have a university education.

Labor costs are relatively low in Serbia and Montenegro. In Serbia, the minimum wage (monthly) for the period July-December 2005 is set at around CSD 7,400 (equivalent to about USD 100). The average salary in December 2005 in Serbia amounted to CSD 22,079, or approximately EUR 260. The average salary in 2005, compared to the average salary in 2004 is higher by 23.64 percent in nominal terms, and 6.40 percent in real terms. However, these are net salaries; actual costs to employers, gross salaries, also include personal income, social security and other contributions that can amount to 100-120 percent of the net salary. Calculation, deduction, and payment are the responsibilities of the employer. The payroll contribution for pension and disability insurance is 22 percent (11 percent paid by the employer and 11 percent by the employee); for health insurance, 6.15 percent (3.075 percent is paid by the employer and 3.075 percent by the employee), and for unemployment insurance, 1.5 percent (0.75 percent is paid by the employer and 0.75 percent by the employee). In effect, the employer pays these costs.

In Montenegro, labor costs are slightly higher but still relatively inexpensive. The total workforce is estimated to be 225,000 with an unemployment rate of roughly 19 percent at the end of 2005. The latest data shows that employment in private companies has increased, and total employment in the social sector (including socially and state-owned companies) has decreased. Major sectors generating employment in Montenegro are: tourism, port/shipping and manufacturing (aluminum, etc).

Serbia's Law on Labor Relations (amended in December 2001) and Montenegro's Labor Law (adopted in 2003) regulate employee and employer relations through employment

contracts. Previous labor legislation provided overly generous benefits to workers. For example, excessive severance packages (two years) were required for employees that were terminated. More frustrating for employers was that former laws essentially prevented terminations for non-performance. The World Bank, in particular, worked closely with the republic governments to seek major amendments to these laws. As a result, both laws improved companies ability to remove non-performing workers without entailing excessive severance costs. Costly maternity benefits were reduced and brought in line with European norms. Both republic laws permitted collective bargaining. The laws reaffirm employees' right to strike but also set out obligatory procedures for organizing a work stoppage.

However, a new Serbian Labor Law adopted in March 2005 and amended in July 2005 was viewed by many in the foreign investment community as a step back towards labor market inflexibility, which poses an obstacle to investment and the shift of employment from the gray to the formal economy. Foreign investors believe that the implementation of this law is greatly increasing labor costs, and that many of its provisions represent a great burden for the employer. For example, amendments to the new law double the severance payment for redundant workers. Given the concerns of foreign investors, the government of Serbia is considering amendments to the Labor Law in 2006.

Montenegro has amended its labor law to eliminate labor market rigidities and permit direct negotiations between employees and employer. Labor relations are governed by national, sector and company collective bargaining agreements. There are concerns that the reforms envisioned in the law could be circumvented through the sector/company-specific agreements.

#### A.11.e. Foreign-Trade Zones/Free Ports

Serbia's current Law on Free Trade Zones, the former Yugoslav law promulgated in 1998, permits the establishment of free-trade zones which provide customs duties benefits to companies operating out of these zones. There are currently 14 designated free-trade zones in Serbia: Belgrade, Smederevo, Kovin, Novi Sad, Sabac, Subotica, Sremska Mitrovica, Senta, Prahovo, Sombor, Lapovo, Vladicin Han, Backa Palanka and Pirot. However, only five of them are functioning at present: Belgrade, Novi Sad, Subotica, Sabac and Pirot. Free trade zones in Pirot and Subotica have been the most successful. Imports into the zones and exports from the zones are not subject to quotas, permits, licenses, or other foreign trade restrictions. Fixed assets, machines, and construction materials can be imported duty-free. Goods that are imported from the zones into the domestic market are subject to standard customs procedures; however, if the goods are produced from at least 50 percent domestic components, they are considered to be domestic goods. Moreover, the profit from investments over EUR 8 million is tax-free for 10 years.

A new Law on Foreign Trade Zones is being drafted as of early 2006. The new law will require shutdown of non-active free trade zones, while active and newly-formed ones will be required to submit their reports at the end of each fiscal year to the future Directorate for Free Trade Zones. This Directorate would be authorized to issue or cancel licenses to operate the free trade zones. In addition, the new law would allow the establishment of the free trade zones within business parks. In June 2004, Montenegro passed its own Free Trade Zone Law. There is currently only one free trade zone: Port of Bar. The Free Zone offers to businesses benefits and exemptions from customs duties, taxes, and other duties.

#### A.11.f. Foreign Direct Investment Statistics

The source of data on FDI flows into Serbia is the National Bank of Serbia and Customs Administration; however, there are technical problems with reconciling this data. The NBS takes into account only cash, mainly balance of payments transactions, while Customs records imports of equipment. The Serbian Investment and Export Promotion Agency tries to combine these two sources and calculate accurate FDI data, but only from 2004.

A second issue with the FDI data arises with regard to the country of origin. Cash-based data recorded by the central bank reflects the last financial center from which the transfer to Serbia was made, but many companies use offshore banks or subsidiaries. For instance, much of the U.S. investment actually is recorded as originating from the Netherlands. However, Embassy calculations show that total US FDI from 2000 till 2005 in Serbia is USD 1.3 billion, which means that the U.S., overall, has been the largest investor into Serbia.

Total FDI for the period 2000-05 is about USD 4.5 billion. Assuming estimated Serbian GDP for 2005 of around USD 25 billion, the cumulative stock of FDI, as a percentage of GDP, is more than 17 percent for the period of 2002-05 and more than 18 percent if we include 2000 and 2001. The inflow of FDI for 2005, as a percentage of GDP, reached 6 percent; looking back to 2001, inflows ranged from 3-6 percent of GDP in the observed period.

Foreign Direct Investment in the Republic of Serbia  
(by country, in thousands of USD)

Country	Total (annual):	Total
2002200320042005Cumulative		
Totals:	475K 1,360K 950K 1,500K 4,285K	
Netherl	12,248598,963102,30191,028794,540	
Germany	82,80175,70897,897199,702456,108	
Austria	33,87693,747142,767138,245408,635	
Greece	12,49662,26851,351237,527363,642	
Sloveni	9,56129,03613,539173,734225,870	
France	87,4897,85823,88133,997153,225	
Cyprus	41,71731,58114,52663,787151,611	
UK	6,61820,63163,90549,957141,111	
Italy	7,55321,32535,88634,09798,861	
Switzer	2,91312,55925,11852,50393,093	
USA	18,09915,06815,86625,57574,608	
Croatia	5,24334,4467,51716,06863,274	
Hungary	1,1674,22417,27927,23249,902	
Latvia	3515,33015,286 30,651	
Russia	2,5563,359 14,41120,326	
Belgium	3441,9253,12512,39417,788	
Israel	2602072,50414,50317,474	
Denmark	7,8184,6131,04013,471	
Bulgari	13312911,8831,06413,209	
Sweden	312948,4583,58612,369	
Luxembu	3,6194,1082,427 10,154	
Bos/Her	2,9515,056 2,12110,128	
Czech	2651,0042,1248474,240	
Canada	113591,6991,5573,726	
Japan	31,2891691,461	

Montenegro

056	2,121 10,128	
Czech	265 1,004 2,124 847 4,240	
Canada	111 359 1,699 1,557 3,726	
Japan	3 1,289 169 1,461	

Montenegro

A similar issue with data arises with regard to FDI data for Montenegro. The Central Bank of Montenegro misses much FDI connected to privatization transactions. And since Montenegro uses the Euro, inflows are less transparent. For example, the Central Bank likely will not record inflows related to the 2005 sale of Telekom Montenegro to Hungarian Matav, because it occurred via a stock purchase. The data coming from the Government's Montenegro Investment Promotion Agency (MIPA) is more complete. Estimated Montenegrin GDP for 2005 is around USD 2 billion. The FDI stock as a percentage of GDP is 52.2 percent for the observed period, although the FDI stock rises to almost USD 1.5 billion, or roughly 75 percent of GDP, for the entire period 2000-05. FDI inflow as a percentage of GDP was almost 19 percent for 2005; annual flows during 2000-05 ranged from 16 to 19 percent.

Foreign Direct Investment in the Republic of Montenegro  
(by country, in thousands of USD)

Country	Total (annual):	Total
al		
2002200320042005Cumulative		
Totals:	169,839302,386138,525433,7501,044,500	
Hungary	1,0383,636 5,125.0239,375249,174	
Greece	16,50996,5909381,750115,788	
Luxembu	8,77467,0466,6255,37587,819	
Sloveni	7,97218,75022,00026,25074,971	
Russia	3,2555,28410,87552,25071,664	
Germany	22,6428,52314,37511,87557,414	
UK	30,66013,3526,8754,50055,388	
Switzer	6,17910,00011,75022,00049,929	
Austria	2,2264,8295,62521,62534,306	
Belgium	8,2084,886-2,12515,219	
USA	1,6042,1592,8756,87513,513	
Serbia	3,0751,9893,8754,37513,314	
Italy	3,4911,4208132,6258,349	
BIH	-1,8759384,3757,188	
Croatia	2,0767051,3751,5635,718	
Netherl	11,8491,4208756874,832	

Israel1,6511,5341,0004,185  
Denmark2,1791,704-3,884  
Sweden8218304381,1253,213  
Japan-2,898--2,898  
France8219664501252,362  
Slovakia--450-450  
Other44,81151,98942,25023,875162,925

Following are some major FDI transactions of interest:

Slovakia - - 450 - 450  
Other 44,811 51,989 42,250 23,875 162,925

Following are some major FDI transactions of interest:

Company: Bank Intesa  
Country: Italy  
Investment: 90 percent of Delta Banka for USD 399.6 million  
- Retail Banking (Serbia)

Investing Company: Alpha Bank  
Country: Greece  
Investment: 88.64 percent of Jubanka for USD 185 million  
- Retail Banking (Serbia)

Investing Company: Credit Agricole  
Country: France  
Investment: 71 percent of Meridian Banka for USD 96 million  
- Retail Banking (Serbia)

Investing Company: Erste Bank  
Country: Austria  
Investment: 83.3 percent of Novosadska Banka for USD 87.84 million - Retail Banking (Serbia)

Investing Company: EFG Eurobank  
Country: Greece  
Investment: 52.2 percent of Nacionalna Stedionica - Banka for USD 49.2 million - Retail Banking (Serbia)

Investing Company: Nova Ljubljanska Banka  
Country: Slovenia  
Investment: 98.4 percent of Kontinental Banka for USD 59.4 million - Retail Banking (Serbia)

Investing Company: Findomestic Bank  
Country: Italy  
Investment: Nova Banka for USD 28.44 million - Retail Banking (Serbia)

Investing Company: Pireus Bank  
Country: Greece  
Investment: 88.23 percent of Atlas Banka for USD 32.4 million - Retail Banking (Serbia)  
Investing Company: OTP Bank  
Country: Hungary  
Investment: 89.39 percent of Niska Banka for USD 17.05 million - Retail Banking (Serbia)

Investing Company: Coca Cola Co.  
Country: USA  
Investment: 100 percent of Vlasinka Vranje for USD 25.8 million - Food Processing Industry (Serbia)

Investing Company: British-American Tobacco (BAT)  
Country: UK  
Investment: USD 36 million in new factory in Vranje (Serbia)

Investing Company: Merkator  
Country: Slovenia  
Investment: USD 27.6 million in a new store in Cacak - Retail Trade (Serbia)

Investing Company: Merkur  
Country: Slovenia  
Investment: USD 12 million in the first store in Belgrade - Retail Trade (Serbia)

Investing Company: METRO Cash&Carry  
Country: Germany  
Investment: USD 72 million - Gross and Retail Trade (Serbia)

Investing Company: Worldfin Fund  
Country: Luxemburg  
Investment: 70 percent of Port Belgrade for USD 48 million - Transport (Serbia)

Investing Company: Gorenje Group  
Country: Slovenia

Investment: USD 48 million in the new factory in Valjevo -  
Home Appliances (Serbia)

Investing Company: Agrokor  
Country: Croatia  
Investment: 60 percent of Dijamant Zrenjnin - Food  
Processing Industry (Serbia)

Investing Company: Interbrew  
Country: Belgium  
Investment: Acquisition of Niksic Brewery for USD 25.2  
million (Montenegro)

Investing Company: Societe Generale  
Country: France  
Investment: Acquisition of 64.45 percent of Podgoricka Bank  
for USD 16.8 million (Montenegro)

Investing Company: Hellenic Petroleum  
Country: Greece  
Investment: Acquisition of the 54.4 percent of Jugopetrol  
Kotor petroleum refinery for USD 120 million (Montenegro)

Investing Company: Telenor  
Country: Norway  
Investment: Acquisition of Promonte mobile operator for USD  
108 million (Montenegro)

Investing Company: Matav (with Deutsche Telecom)  
Country: Hungary  
Investment: Acquisition of 51 percent of Telecom  
Montenegro for USD 136.8 million (Montenegro)

Investing Company: Rusal  
Country: Russia  
Investment: Acquisition of aluminum plant for USD 58.2  
million (Montenegro)

Investing Company: HIT Nova Gorica  
Country: Slovenia  
Investment: Acquisition of the Hotel Maestral for USD 48  
million (Montenegro)

Investing Company: Beppler & Jacobson  
Country: England  
Investment: Acquisition of Hotel Bianca for USD 10.8  
million (Montenegro)

Investing Company: Njega Tours  
Country: Russia  
Investment: Acquisition of Hotel AS for USD 18 million  
(Montenegro)  
Moore